BRITISH COLUMBIA
The Best Place on Earth

Ministry of Small Business and Revenue

Small Business Profile 2006

Canada

Western Economic Diversification Canada
Diversification de l'économie de l'Ouest Canada

2007-01335/

BRITISH COLUMBIA
The Best Place on Earth

Western Economic Diversification Canada / Diversification de l'économie de l'Ouest Canada

Dear Recipient:

On behalf of the governments of Canada and British Columbia, we are pleased to mark the 27th anniversary of Small Business Week by presenting British Columbia's ninth annual **Small Business Profile 2006: A Profile of Small Business in British Columbia**.

Small Business Profile 2006 is a reflection of the vital role small business plays – perhaps more than ever before – in British Columbia's booming economy. The report examines new trends and key statistics in British Columbia's small business sector, including: Growth; Employment; Gross Domestic Product; Exports and Regional Distribution.

Small Business Profile 2006 is produced in partnership by the federal and provincial governments. Compilation and analysis of statistics were provided by B.C. Stats, using data from Statistics Canada.

The governments of Canada and British Columbia are proud to pay tribute during this important week to the talents, achievements and entrepreneurial spirit of British Columbia's small businesses.

We invite you to take a look at the **Small Business Profile 2006** and learn more about the essential contributions of small businesses across British Columbia.

Yours truly,

The Honourable Rick Thorpe
Minister of Small Business and
Revenue and Minister Responsible
for Regulatory Reform
Government of British Columbia

The Honourable Carol Skelton
Minister of National Revenue and
Minister Responsible for Western Economic
Diversification
Government of Canada

Enclosure

COLOMBIE-
BRITANNIQUE
Le meilleur endroit sur terre

Western Economic Diversification Canada | Diversification de l'économie de l'Ouest Canada

Madame, Monsieur,

Au nom des gouvernements du Canada et de la Colombie-Britannique, nous sommes heureux de souligner le 27e anniversaire de la Semaine de la PME par la présentation du neuvième rapport annuel de la Colombie-Britannique, ***Profil de la petite entreprise 2006 - Profil de la petite entreprise en Colombie-Britannique***.

Le ***Profil de la petite entreprise 2006*** constitue une réflexion sur le rôle déterminant — peut-être plus qu'auparavant — que jouent les petites entreprises dans l'économie florissante de la Colombie-Britannique. Le rapport examine les nouvelles tendances et les données statistiques du secteur provincial de la petite entreprise, dont la croissance, l'emploi, le produit intérieur brut, les exportations et la répartition régionale.

Le ***Profil de la petite entreprise 2006*** est le fruit d'un partenariat entre les gouvernements fédéral et provincial. B.C. Stats a assuré la compilation et l'analyse des statistiques à partir de données fournies par Statistique Canada.

À l'occasion de cette semaine importante, les gouvernements du Canada et de la Colombie-Britannique sont fiers de souligner le talent, les réalisations et l'esprit d'entreprise des petites entreprises de la Colombie-Britannique.

Nous vous invitons à consulter le ***Profil de la petite entreprise 2006*** et à en apprendre davantage sur la contribution importante des petites entreprises dans l'ensemble de la Colombie-Britannique.

Recevez, Madame, Monsieur, nos salutations distinguées.

L'honorable Rick Thorpe
Ministre de la Petite entreprise et
du Revenu et ministre responsable
de la Réforme réglementaire
Gouvernement de la Colombie-Britannique

L'honorable Carol Skelton
Ministre du Revenu national et
ministre de la Diversification
de l'économie de l'Ouest canadien
Gouvernement du Canada

Pièce jointe

Small Business Profile 2006

BRITISH COLUMBIA
The Best Place on Earth

Ministry of
Small Business
and Revenue

Western Economic
Diversification Canada

Diversification de l'économie
de l'Ouest Canada

Contents

A profile of small business in British Columbia

Small Business – In 2005, 98 per cent of all businesses in British Columbia were small businesses. Micro-businesses (those with fewer than five employees) constituted about 84 per cent of small businesses.

Small Business Growth – The number of small businesses operating in the province increased for the fourth consecutive year, up 1.7 per cent compared to 2004.

Employment – An estimated 1,012,100 people were employed by small business in British Columbia in 2005, accounting for 57 per cent of private sector jobs in the province, the highest rate in the country. Over 50 per cent of this small business employment was in the form of self-employed individuals working alone.

Employment Growth – Small business employment in British Columbia grew 3.8 per cent between 2004 and 2005, the highest rate of growth among the provinces and well above the national average of 0.9 per cent.

High Technology Sector – Small businesses comprised approximately 95 per cent of employers in high technology, the fastest growing sector in new small businesses.

Self-Employed – On average, the self-employed tend to be older, are more often men and work longer hours compared to those who work as paid employees. In British Columbia, 35 per cent of the self-employed are women, which is higher than the national average of just under 34 per cent.

Gross Domestic Product – Among the provinces, British Columbia ranked first in the country with the highest proportion of Gross Domestic Product (approximately 26 per cent) attributed to small businesses.

Regional Focus – The Northeast region recorded the highest rate of growth in the province in the number of new small businesses, with an average increase of 3.8 per cent per year over the last 5 years.

Exports – Small business in British Columbia shipped almost $11.5 billion worth of merchandise to international destinations in 2004, more than a third of the total value of goods exported from the province.

	Number of businesses	Per cent of total
Total small businesses	**364,000**	**98%**
Self-employed without paid help†	209,000	56%
Businesses with less than 50 employees	155,000	42%
Total large businesses	7,800	2%
Total all businesses‡	**371,700‡**	**100%**

Information on programs and services for small businesses can be obtained by contacting:

601 West Cordova St.
Vancouver, B.C. V6B 1G1
Telephone: 604 775-5525
Toll Free: 1 800 667-2272
Internet: ***www.smallbusinessbc.ca***

Statistics related to small business are available at:

Data Services
553 Superior St.
Box 9410 Stn Prov Govt
Victoria, B.C. V8W 9V1
Telephone: 250 387-0327
Internet: ***www.bcstats.gov.bc.ca***

Information on provincial and federal government programs and services can be found at:

Box 9805 Stn Prov Govt
Victoria, B.C. V8W 9W1
Internet: ***www.sbr.gov.bc.ca***

Minster of Small Business and Revenue and Minister Responsible for Regulatory Reform
Box 9065 Stn Prov Govt
Victoria, B.C. V8W 9E2
Telephone: 250 356-6611
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Toll Free: 1 888 338-9378
Internet: ***www.wd.gc.ca***

This publication is also available electronically at:
www.sbr.gov.bc.ca

Small Business Profile 2006: A Profile of Small Business in British Columbia is an update of previous versions published annually since 1997. This report is designed to answer some common questions about the role of small business in British Columbia through an examination of trends in growth over the last five years. Key issues addressed include the number of businesses, growth in employment, contribution to the economy, industry breakdown, impact on regional economies and the role of small business exporters.

Statistical information in this report was prepared by BC STATS with data provided by Statistics Canada from various statistical databases such as the Business Register, the Survey of Employment, Payrolls and Hours, the Labour Force Survey and the Exporter Registry. Data regarding e-commerce is derived from the results of member surveys by the Canadian Federation of Independent Business.

Small Business Profile 2006 is produced in co-operation with the federal and provincial governments. The report was prepared by BC STATS in the British Columbia Ministry of Labour and Citizens' Services in partnership with Western Economic Diversification Canada, the British Columbia Ministry of Small Business and Revenue and Small Business BC.

Small business is the primary provider of private sector jobs in the province, reflecting an ongoing trend toward economic diversification. It is also a vital source of innovation: approximately 95 per cent of high technology businesses in British Columbia are small businesses with fewer than 50 employees. The small business sector is inarguably a key instrument of job creation and economic growth in British Columbia.

The economic landscape of the province has been profoundly impacted by the growth in entrepreneurship and this effect should continue for some time to come. British Columbia small business owners have high expectations for the future. Although data from surveys, such as the Canadian Federation of Independent Business' (CFIB) *Quarterly Business Barometer*, are useful subjective measures of the health of small business in British Columbia, it is also important to examine objective measures such as business counts, employment, GDP and revenues to see if they paint the same picture of thriving small business in British Columbia.

Did You Know?

According to the Canadian Federation of Independent Business (CFIB), a quarterly survey of its members indicates that business confidence in British Columbia remains among the highest in the country[1].

It is important to define the concept of "small business", before examining its scope and growth. The definition most commonly used focuses on the number of employees. For the purposes of this report, a small business is defined as one with fewer than 50 employees, or a business operated by a person who is self-employed, without paid help.

The number of businesses in British Columbia in 2005 totalled 371,700. Of those, about 98 per cent, or 364,000, were small businesses. Just over 56 per cent of all businesses in the province were operated by self-employed individuals with no paid employees. By comparison, less than 54 per cent of all Canadian businesses were comprised of self-employed people with no paid help.

In 2005, the total number of small businesses operating in British Columbia increased for the fourth straight year, up 1.7 per cent from 2004 and the largest increase in 10 years. Both small businesses with employees (+2.6 per cent) and businesses operated by unincorporated self-employed individuals without paid help (+1.1 per cent) increased in number. Over the last decade, the number of small businesses with employees has remained essentially steady.

A business is defined as a small business if it is either:

- A business with fewer than 50 employees
- A business operated by a self-employed person with no paid help

A microbusiness is defined as a small business with fewer than 5 employees.

Incorporated businesses

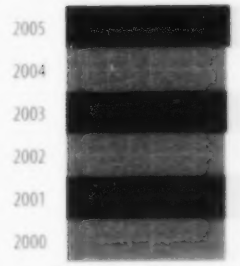
Incorporated businesses consist of those organized and maintained as legal corporations. A corporation is created (incorporated) by a group of shareholders who have ownership of the corporation.

Self-employed

Self-employed individuals are defined as individuals who spend most of their working hours operating their own businesses. The self-employed can be categorised as either incorporated or unincorporated and each of these classifications can further be divided between those operating with paid help (i.e., with employees) or without paid help (i.e., working by themselves). This produces four major categories of self-employed workers.

Unincorporated businesses

Unincorporated businesses consist of those not organized and maintained as legal corporations and the tie between members need not be a legally enforceable contract.



Year-over-year variations in the number of small businesses has generally been driven by the rise and fall in the count of self-employed without paid help, which, after experiencing three years of double-digit increases in the mid-nineties, faced significant declines between 1999 and 2001 before rebounding with increases in each of the last four years.

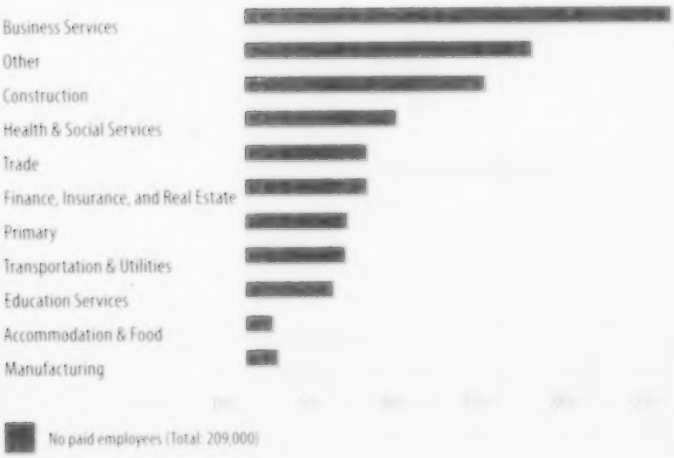
The number of large businesses (50 or more paid employees) in British Columbia climbed in 2005, increasing 5.6 per cent on the heels of a substantial increase the previous year (+3.7 per cent).

The majority of small businesses in British Columbia are micro-businesses with fewer than five employees. In 2005, there were 303,700 businesses of this description, comprising 83.4 per cent of all small businesses. Of these, 57 per cent were self-employed persons without paid help and the remaining 26 per cent employed one to four individuals.

The small business count in the province expanded by an average of 4,900 per year in the last five years. The fastest growing group of the small business sector has been self-employed workers with no paid help. This sector grew at an average rate of 2.1 per cent per year, or an average annual increase of 3,900 new businesses comprised of self-employed individuals working alone. Overall small business growth in the province remained on par with that of large businesses, which also grew at an average annual rate of 1.4 per cent from 2000 to 2005.

	Number of businesses	Per cent of total
Total businesses with 0-4 employees	**303,700**	**83.4%**
Self-employed without paid help	209,000	57.4%
Businesses with 1-4 employees	**94,700**	**26%**
Businesses with 5-19 employees	47,100	12.9%
Businesses with 20-49 employees	**13,100**	**3.6%**
Total small businesses[1]	**364,000**	**100%**

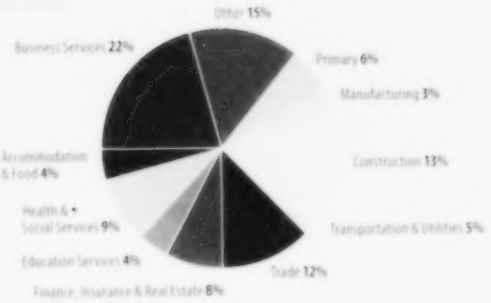
	Average annual growth (#s)	Average annual growth rate
Total small businesses[1]	**4,900**	**1.4%**
Self-employed without paid help	3,900	2.1%
Businesses with 1-4 employees	**800**	**0.9%**
Businesses with 5-19 employees	100	0.3%
Businesses with 20-49 employees	-	**0.3%**
Total large businesses	100	1.4%
Total all businesses	**5,000**	**1.4%**



Small businesses in British Columbia are engaged in diverse activities which range from family-owned and operated restaurants to self-employed software engineers, to small lumber milling operations. Almost three-quarters of all businesses in the province are in service sector industries, with small businesses only slightly more likely to be providing a service compared to large businesses.

For the small business service sector as a whole, the largest concentration is in business services, which contains 22 per cent of all British Columbia small businesses, followed by wholesale and retail trade with 12 per cent. Business services, which include occupations such as veterinarians and accountants, are more concentrated in businesses with no employees, while firms involved in trade are more likely to have employees. Figures 1.4a and 1.4b show the industry breakdown for small businesses with employees and for businesses comprised of a self-employed person with no paid help.

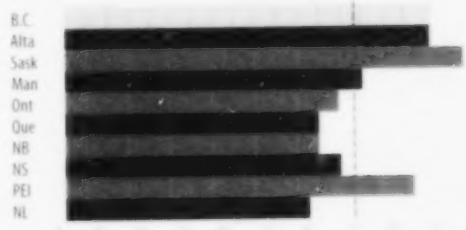
Construction is the most significant industry in the goods sector as a whole, accounting for 13 per cent of all small businesses in British Columbia. Given that construction is more amenable to smaller operations than most manufacturing industries, for example, it makes sense that it has the largest concentration of small businesses among industries outside the service sector.

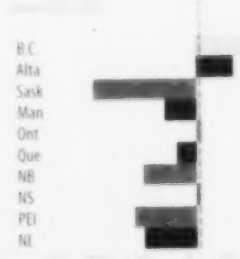


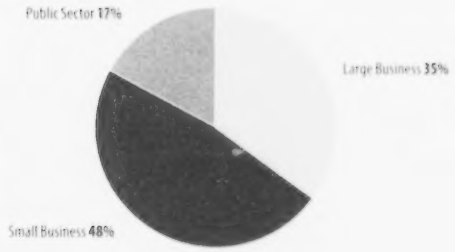
In terms of businesses per capita, small businesses are more prevalent in Western Canada compared to the rest of the country. In 2005, British Columbia surpassed Alberta (85.1) ranking second among the provinces with 85.5 small businesses per 1,000 people. Saskatchewan had the highest ratio of small businesses to population with 93 per 1,000 people.

Over the past five years, British Columbia has led the provinces in growth in the number of small businesses. Between 2000 and 2005, small businesses numbers climbed 7.2 per cent, well above the national growth average of 0.2 per cent. The faster growth in the number of small businesses in British Columbia is likely related to the fact that the province has traditionally been more service sector-oriented compared to most other provinces. Much of the growth in small businesses across the country has been concentrated in service sector industries. Strong growth in professional, scientific and technical services has helped drive British Columbia's small business growth, as has the booming construction sector.

The national performance over the last five years was mainly due to a contraction in manufacturing businesses and establishments engaged in primary industries such as agriculture, forestry, fishing and hunting. The North American manufacturing sector has been struggling in recent years in the face of events, such as 9/11, as well as increased competition from rapidly increasing economies such as China. In Canada, the appreciation of the Canadian dollar has also had a marked effect on this sector.







Approximately **1,012,100 jobs in British Columbia** were derived from small business in 2005. This accounts for 48 per cent of total employment in the province, a slight increase in the share of jobs attributed to small business in 2004 (47 per cent).

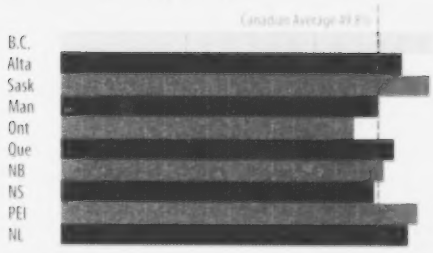
Did You Know?

British Columbia's unemployment rate is at its lowest in over 30 years at 4.8 per cent.

The private sector (both small and large businesses) employed 1,760,800 people in British Columbia in 2005. The 1,012,100 people working for a small business translate to 57 per cent of private sector jobs. This ratio remained essentially unchanged since 1999. In 2005, self-employed workers represented 24 per cent of total private sector employment.

Small business employment in British Columbia grew for the fourth straight year in 2005, climbing by 3.8 per cent. Both employees of small businesses and self-employed individuals have contributed to the expansion in employment in the last few years. The upsurge in self-employed individuals in recent years has more than made up for steep declines in 2000 and 2001 that reduced the count from a high in 1999. In 2005, there were 59,200 more self-employed workers in British Columbia compared to 2000, a 16.6 per cent increase over the five-year period. Employees of small businesses increased 9.8 per cent, which helped boost overall small business employment (including self-employed) to 12.5 per cent between 2000 and 2005. Employment in large businesses jumped 11.3 per cent over that same period.

	Employment	Per cent of total
Total small business employment	**1,012,100**	**57%**
Self-employed	415,800	24%
Employed by small business	596,300	34%
Large business employment	**748,700**	**43%**
Total private sector employment	**1,760,800**	**100%**



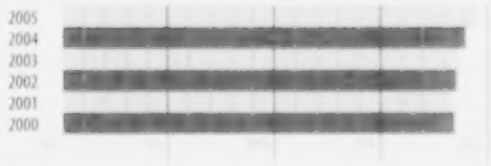
In 2005, British Columbia surpassed Saskatchewan to rank first among the provinces in terms of the percentage of total private sector jobs derived from small business. Just over 57 per cent of private sector employment in the province is provided by small business. By comparison, only half (50 per cent) of private sector employment in Canada was supplied by small business.

The significant variation among the provinces in terms of small business employment is likely related to regional differences in economic structure. For example, Saskatchewan has a significant agricultural sector and these farming operations are often small businesses with fewer than 50 employees. Ontario, on the other hand, is a manufacturing hub and has a greater percentage of large manufacturers, particularly automobiles, and is therefore more likely to have a higher percentage of employment in large businesses.

Did You Know?

Almost half (48 per cent) of all employed British Columbians work in small businesses.

The 3.8 per cent rise in small business employment in British Columbia between 2004 and 2005 was the most significant in the country and well above the Canadian average of 0.9 per cent. Other than British Columbia, only Quebec (+1.7 percent) had a rate of growth higher than one per cent. The recent construction boom in housing and other projects has contributed significantly to the surge in small business employment in British Columbia. Although the overall swell in construction is by no means entirely attributable to the up-coming Olympics, the development of facilities related to the 2010 Winter Games has been an important factor in the creation of new jobs.

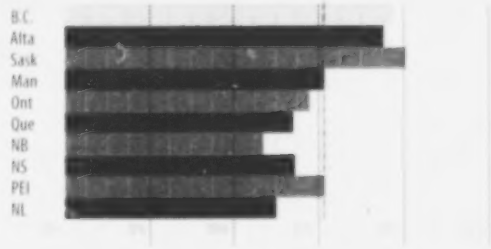


Self-Employment

Individuals who spend most of their working hours operating their own businesses are classified as "self-employed." Over the past five years in British Columbia, the proportion of total employment comprised of self-employed workers has been increasing. In 2005, self-employment accounted for 19.5 per cent of total employment, up 0.5 percentage points from 2004 (19 per cent).

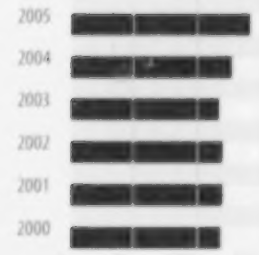
Saskatchewan (20.3 per cent) was the only province to have a higher proportion of self-employed workers than British Columbia in 2005, which can be explained by that province's significant reliance on family farming operations. However, the number of farmers in Saskatchewan has been falling and this is reflected in the proportion of self-employed workers, which has been dropping over the last couple of decades.

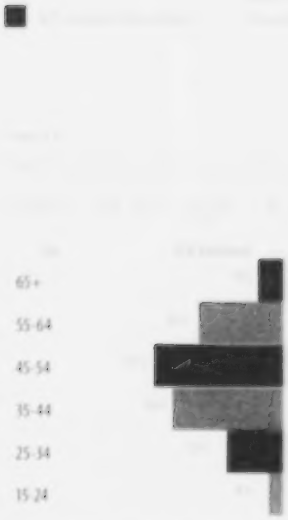
Other provinces across the country had much lower proportions of self-employed last year. At 19.5 per cent, British Columbia continues to surpass the Canadian average.



There were 415,800 self-employed workers in British Columbia in 2005, including 3,000 people working in family businesses without pay. This leaves 412,700 self-employed business owners, up 6 per cent from 2004. Most (60 per cent) of self-employed businesses were unincorporated. Unincorporated individuals working on their own with no employees made up the largest class of self-employed small businesses, with over half (51 per cent) of all self-employed fitting into this category.

	Incorporated	Unincorporated	Total self-employment
With paid help	99,300	40,400	139,700
Without paid help	64,000	209,000	273,000
Total	163,300	249,400	412,700
Per cent	40%	60%	100%





In 2005, the number of self-employed *without* paid help (regardless of incorporation status) was almost double that of self-employed *with* paid help. Although between 2004 and 2005 the number of self-employed with paid help (+14.8 per cent) increased at a quicker pace than did those without paid help (+8.5 per cent), the gap between the two classes of self-employed persons remains much wider than it was five years ago.

Self-employed individuals tend to produce less output per hour worked compared to employees, since they generally have far fewer opportunities to invest productivity-boosting capital into their business compared to larger firms. As a result, the strong growth in self-employed without paid help was a major factor contributing to a levelling of productivity (the ratio of output to input, or in other words, production per hours worked).

The rapid growth in self-employed individuals working alone is not a phenomenon unique to British Columbia. The same pattern is evident across the country and even around the world. There are a multitude of possible reasons for the rise in this type of self-employment, including structural changes to the economy that "pushed" people into self-employment and increased entrepreneurial opportunities that "pulled" people toward working for themselves. Some of these "push" and "pull" factors include government and corporate downsizing during the 1990s, the shift toward contracting out some business functions in response to increasing competition resulting from globalization and the corresponding need to drive down costs, the increasing participation of women in the labour force and the need to balance family and work, technological changes giving people more flexibility to work at home, and retirees wishing to continue working after officially retiring from their previous professions.

Whether or not the majority of self-employed are choosing self-employment because paid employment is not available or are self-employed by choice has garnered considerable debate. One factor in this debate is Canada's changing demographics in terms of its aging population. It has been suggested the incidence of retirees re-entering the workforce post-retirement in the form of self-employed workers will likely increase significantly over the next decade. According to a recent Statistics Canada publication that examined changing retirement patterns in Canada, with the massive wave of retiring baby boomers, labour supply from older workers will continue to become more crucial[7]. It is likely many older workers will choose to become self-employed, which in turn will make for the development of more flexible retirement paths and a probable increase in the number of self-employed across the country. It is likely that increased numbers of retirees who face mandatory retirement at the age of 65 will choose to continue working from home.

On average, self-employed people tend to be older, are more often men, work longer hours and are less likely to be Aboriginal people compared to workers who are employees.

Well over half (57 per cent) of the self-employed are between the ages of 35 and 54, compared to only 47 per cent of employees. While 41 per cent of employees

are under the age of 35, only 17 per cent of self-employed business owners fit this description. Conversely, 26 per cent of entrepreneurs are aged 55 and over, compared to only 12 per cent of employees.

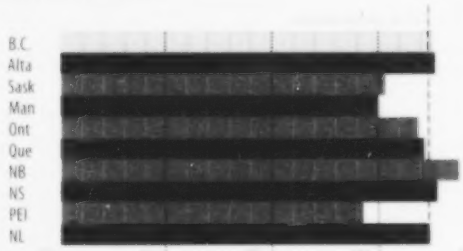
There are a number of reasons for the different age structure of self-employed persons versus employees. The reason there are not a lot of young self-employed entrepreneurs is likely due to a lack of skills and capital needed to start and operate a business. For older workers, self-employment may be used as a transition from working at a full-time job to moving into retirement and even beyond retirement-age. This is reflected in the percentage of self employed business owners aged 65 and over (6 per cent) compared to employees of the same age group (1 per cent).

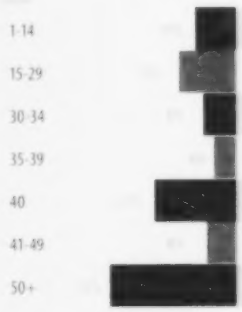
Another difference that emerges between self-employed persons versus employees is gender balance. While workers who are employees are equally likely to be men or women, those that are self-employed are more often men. In 2005, in British Columbia, almost two-thirds (65 per cent) of the self-employed were men. However, there is a higher proportion of self-employed women in British Columbia (35 per cent) compared to the national average (34 per cent).

There is a substantial difference between self-employed and employees in terms of the usual number of hours worked per week. On average, the self-employed have much longer work days compared to employees. While a significant majority of employees work between 35 and 40 hours per week (64 per cent), only 27 per cent of the self-employed fit in this category. Nearly one third of the self-employed work 50 or more hours per week, compared to only 5 per cent of employees. The average work week for all self-employed workers is 39.5 hours, compared to 35.2 hours for all employees. The disparity between employees and the self-employed in terms of hours worked per week has remained comparatively unchanged over the last five years. The average work week for self-employed workers in British Columbia has fluctuated just slightly (between approximately 38 and 40 hours) in the past decade, while the average for employees has also remained fairly stable (between about 35 and 36 hours per week).

Based on data for the period from April 2005 through March 2006 it appears that Aboriginal peoples living off-reserve are significantly less likely to be self-employed compared to non-aboriginals. During that period, 13.1 per cent of Aboriginal peoples in British Columbia were self-employed, compared to 19.5 per cent of non-Aboriginal peoples who worked for themselves. Those Aboriginal peoples that identified themselves as Metis were more likely to be self-employed (17.2 per cent) than those that were classified as North American Indian (9.9 per cent). The total proportion of self-employed Aboriginals was lower in the 2005/2006 fiscal year than that recorded one year prior (14.8 per cent).

Over the past five years, British Columbia has shown substantial strength in self-employment growth. Between 2000 and 2005, there was a 16.6 per cent increase in the number of self-employed in the province, well above the national average of 5.8 per cent and just marginally behind Alberta (+16.7 per cent).



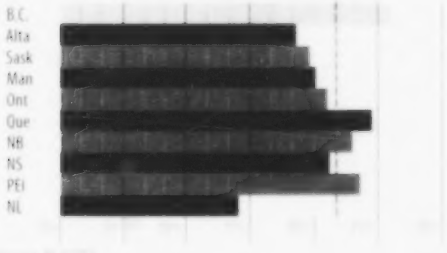


Gross Domestic Product (GDP) refers to the total market value of all the goods and services produced within national or provincial borders of during a specified period. The growth rates of GDP provide an indication of how well an industry or an economy is doing. The GDP of an industry (also referred to as value added) equals output by the industry minus the value of intermediate inputs that were purchased from other industries, domestic or foreign. Value added is a measure of how much an industry has contributed to the value of its output over and above the value of intermediate inputs. GDP by industry for the economy as a whole is the sum of values added by all industries resident in Canada.

Small business contributes to the provincial economy not only by creating and maintaining jobs, but also through its production of goods and services, and by meeting payrolls that support families and stimulate further economic activity.

The key measure of economic production of a sector is its gross domestic product (GDP). GDP represents the value a sector adds to the raw inputs it uses, which is an important aspect of the sector's contribution to the economy.

In 2005, British Columbia's small business GDP accounted for 26 per cent of provincial GDP, the highest of all provinces and well above the Canadian average (22 per cent). This indicates that small business plays a more significant role in the provincial economy in British Columbia than it does in other parts of the country. This is in part due to the fact the province has traditionally been more service sector-oriented than other provinces and much of the nation's growth in small businesses has been concentrated in service sector industries. After British Columbia, Quebec (25 per cent) ranked second, followed closely by Prince Edward Island (24 per cent). The proportion was lowest in Newfoundland & Labrador (14 per cent), which likely reflects the increased role of large businesses in the offshore oil industry in that province's economy.



On average, small businesses have traditionally paid their employees lower wages compared to larger businesses. Much of this wage disparity is made up in other ways by offering benefits that may not be possible in larger businesses, such as more flexible working hours. In 2005, the average small business employee earned $33,078, compared to $39,788 for employees of large businesses, which amounts to a difference of nearly $7,000. Part of this wage disparity is likely related to productivity. Larger firms tend to be more productive than small businesses because they can take advantage of economies of scale and they can better afford necessary capital improvements, such as machinery and equipment that can substitute for low-skilled labour. Consequently, larger firms tend to achieve more output per employee and therefore can afford to pay their employees higher wages. Another possible factor in the wage difference is that small businesses are far less likely to be unionized. In general, employees who belong to unions tend to earn higher wages than non-unionized employees.

Between 2000 and 2005, the difference between wages of employees of small and large businesses tapered somewhat as average earnings of small business employees increased at a faster pace than that of employees of large businesses. Employees of small businesses saw their average wages increase 13 per cent over that period, compared to only a 6 per cent boost for those working for larger businesses. Over the last five years, the gap between earnings of employees at small and large

	Small Business	Large Business
Earnings 2000 (payroll/employee)	$29,317	$37,604
Earnings 2005 (payroll/employee)	$33,078	$39,788
Percent change	**13%**	**6%**

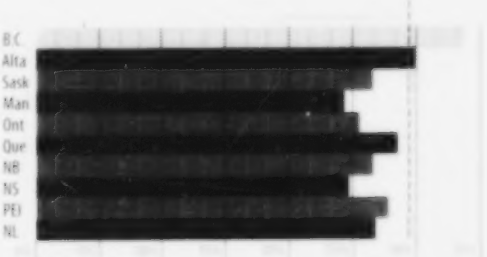
businesses remained fairly steady at about $8,000, but it contracted significantly in 2005, shrinking to less than $7,000. In nearly every industry, average earnings increased at faster pace in small business than in large business.

The recent increase in wages among small businesses may be partly due to the province's shortage of labour. Wage increases have been suggested as a partial solution to the scarcity of workers with the premise that if wages were to increase substantially, it is likely that more people would be drawn back into the workforce. Perhaps more pertinent among small businesses is the fear of lost investment. Many small businesses who provided skill-training and development for their current employees have had these employees recruited by other, larger companies. Increasing wages would act as a method of retaining existing employees as well as attracting new ones.

Annual earnings for small business workers over the past 5 years increased 13 per cent – more than *twice* the increase for large business workers.

For all major industry groupings, small business wages continue to lag behind those of businesses with 50 or more employees. The largest wage gap is in the construction industry, where large businesses pay approximately $17,000 more, on average, than their counterparts in small businesses. At just over $1,000, the smallest gap between small and large businesses is in the professional and business services industries, followed by retail and wholesale trade ($1,100). For businesses of any size, employees in the accommodation and food sector (included in "other services" in Figure 3.3) earned the lowest wages, on average. The highest wage earners were in the mining, oil and gas and utilities industries[1].

British Columbia has the highest reliance on small business payroll of all the provinces, with 34 per cent of wages paid to workers in 2005 derived from small business. This compares to the Canadian average of less than 28 per cent. Second-ranked Alberta was almost four percentage points lower than British Columbia, with 30 per cent of its provincial payroll comprised of wages paid to small business employees. At 24 per cent, Manitoba was the province with the smallest percentage of payroll derived from small business in 2005. The high portion of payroll generated by small business in British Columbia is partially due to the large role that small business plays in the province's economy. Also, wages in some industries that are less prevalent in British Columbia, such as agriculture, tend to be lower, which has an effect on provinces that rely more heavily on such industries.



Did You Know?

British Columbia's small businesses continues to lead the nation in contributions to provincial payrolls.

Specially Defined Sectors

North American Industry Classification System (NAICS) is an industry classification system used in Canada, the United States and Mexico and is designed to provide common definitions of the industrial structure of the three countries. NAICS is Statistics Canada's comprehensive system encompassing all economic activities. It has a hierarchical structure. At the highest level, it divides the economy into 20 sectors. At lower levels, it further distinguishes the different economic activities in which businesses are engaged.

Although resource extraction-based industries, such as forestry and mining, still play a prominent role in the province's economy, sectors such as tourism, high technology[6] and secondary manufacturing have emerged to become significant industries as well and are often thought to be the most likely sources of growth for the future economy of the province. Since they are less reliant on capital-intensive resource extraction, they are well suited for development by small business.

For example, in the high technology sector, small businesses comprise 95 per cent of employers[7]. The basis for growth in this sector is innovation, and services that can be performed from small plants with few employees, small offices and even homes.

Special Sector Definitions

Tourism includes industries such as transportation, accommodation, food services, and other tourism-related activities.[8]

High technology industries may employ a high proportion of scientists and researchers or invest a high proportion of revenues in research and development. Other industries that produce high technology products are also included.[9]

Secondary manufacturing industries are those that produce goods from the products of other manufacturers. For example, a sawmill is a manufacturing operation, but not a secondary manufacturer, because its logs do not come from another manufacturer. A factory producing wooden doors with lumber obtained from sawmills, on the other hand, is a secondary manufacturer.

The business services sector recorded the largest small business growth between 2000 and 2005, with a net addition of almost 1,400 establishments. This makes for an average of 270 new businesses annually. The next highest growth in net new small businesses was in real estate services, where about 820 establishments were added in the five-year period.

This section contains information on industries that are not defined under Statistic Canada's North American Industry Classification System (NAICS). The tourism, high technology and secondary manufacturing sectors are "specially defined sectors" as they are in fact composites of smaller parts traditionally defined under NAICS. Tourism, for example, includes data from parts of the transportation industry, accommodation and food services, and information, culture and recreation services, among others. High technology includes both manufacturing and services components.

Of these three specially defined sectors, two have experienced an increase in the number of small businesses over the last five years. High technology led the way with a net addition of over 600 new businesses; however all the gains were in high technology services, as the number of high technology manufacturing establishments actually declined over the same period. The divergent paths of the manufacturing and service sectors are not unique to the high tech industry. Increased competition from other countries, such as China, along with events such as 9/11, the Iraq war and a spate of natural disasters, seem to have taken more of a toll on the manufacturing sector than the service sector in both Canada and the United States.

The number of tourism businesses also increased, with a net addition of approximately 170 new establishments between 2000 and 2005. On the other side of the scale, the secondary manufacturing sector saw a net decline of almost 600 businesses over the five-year period. The drop in value added manufacturing is likely due to a combination of factors including increased global competition and, for those firms manufacturing wood products, the lingering softwood lumber dispute that has driven some value added manufacturers to the United States in order to avoid duties.

Among the standard sectors, the fastest growth in number of establishments was in small businesses providing education services. Between 2000 and 2005, there was an impressive 26.5 per cent increase in small businesses in education service industries. Some factors contributing to the recent boom in education services include an increase in drivers' education resulting from the implementation of British Columbia's Graduated Licensing Program, as well as growth in demand for instruction in English as a second language (ESL) and a rise in other private sector educational services. Real Estate services also saw strong growth in net new small businesses (+12 per cent), likely due to booming residential and commercial markets in British Columbia.

In the specially defined sectors, high technology continued to grow at a vigorous pace with an 8 per cent rise in the number of establishments, while the number of tourism firms increased at a slower rate (1.1 per cent). Secondary manufacturing experienced a significant 8.6 per cent loss in the number of firms in that sector.

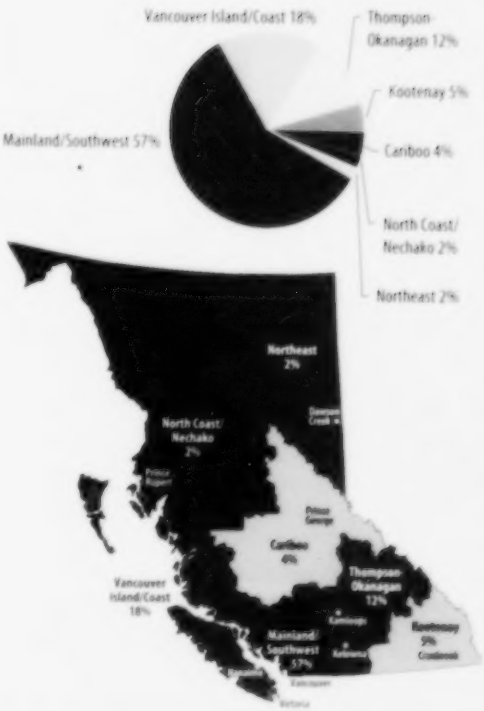
With an employment increase of 31.3 per cent, the construction industry was the largest provider of new jobs between 2000 and 2005. As a result of the recent construction surge in the province, approximately 16,000 jobs were created in this industry over the five year period. The retail trade sector also added a substantial number of new jobs, increasing its employment by 13.5 per cent and creating over 10,000 new jobs. The arts, entertainment & recreation sector recorded the most significant increase in employment over this period with a 38.2 per cent spike in employment (an addition of about 3,500 jobs) and, with equally solid increases, the information and cultural (+37 per cent, or approximately 2,300 new jobs) industry was not far behind.

In the high technology sector, employment growth was concentrated in businesses that employ fewer than five employees (over 700 net new businesses) as the number of small business establishments in each other employee-size category fell.

The tourism sector also saw growth in the number of businesses employing fewer than five employees, but there was a substantial drop in the number of establishments with between 20 and 29 employees as well as among those with 30 to 49 employees indicating that employment in tourism has likely declined from 2000 to 2005[8]. A possible explanation is the appreciation of the Canadian dollar, the impact of global events, like 9/11 and SARS that have occurred over the last five years.

Between 2000 and 2005, the secondary manufacturing sector experienced a drop in the number of establishments in every employee size category. Such a decrease in establishments likely resulted in an overall employment reduction ranging from around 4,600 to 7,800 workers.

The Mainland/Southwest region, which includes Greater Vancouver, was home to approximately 57 per cent of the province's small businesses in 2005. This is marginally less than its 58 per cent share of total provincial population. Vancouver Island/Coast was home to about 18 per cent of British Columbia's population and about the same proportion of small businesses was located in the region. The Thompson-Okanagan region was ranked third with 12 per cent of small businesses, which is also on par with its share of the province's total population. The remaining regions together accounted for around 13 per cent of small businesses, again representative of their 12 per cent share of population.



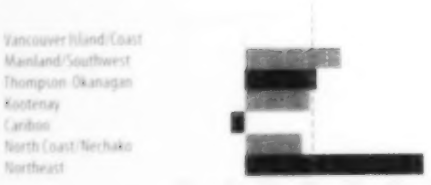
Over the last five years, five of British Columbia's seven regions recorded growth in the number of small businesses. Between 2000 and 2005, the Northeast region led the province in growth in the number of small businesses with an average annual growth rate of 3.8 per cent. This translates to an average increase of 200 businesses per year. The Kootenay region (+3.4 per cent) was second in terms of average annual growth, adding an average of 500 net new small businesses per year, followed by Mainland/Southwest (+ 1.8 per cent), which added an average of 3,500 small businesses annually. Two regions showed declines in the number of small businesses: the North Coast/Nechako region (-1.9 per cent), which declined by an annual average of about 200 businesses, and Cariboo (-0.5 per cent), which lost an average of about 100 businesses per year. Struggles in the forest sector related to the softwood lumber dispute and problems with the mountain pine beetle were likely a major contributor to the falling numbers of small businesses, particularly in the Cariboo.

The Vancouver Island/Coast region and Thompson/Okanagan experienced steady, but less prominent growth in the number of small businesses, with 0.5 and 0.3 percent average annual growth rates, respectively, between 2000 and 2005.

Did You Know?

Approximately 2,500 net new small businesses were opened in the Kootenays over the last 5 years.

	Average annual growth (#)	Average annual growth rate
Vancouver Island/Coast	300	0.5%
Mainland/Southwest	3,500	1.8%
Thompson-Okanagan	100	0.3%
Kootenay	500	3.4%
Cariboo	-100	-0.5%
North Coast/Nechako	-200	-1.9%
Northeast	200	3.8%
Provincial Total	4,400	1.3%



As with total small business growth, the Northeast led the province with the strongest growth in the number of self-employed between 2000 and 2005. This region recorded a 42.6 per cent increase in self-employment, almost 20 percentage points higher than the next fastest growing region, Mainland/Southwest (+23.2 per cent). Three other regions saw positive growth in entrepreneurs: Thompson/Okanagan (+17.3 per cent), Kootenay (+15.6 per cent) and North Coast/Nechako (+13.6 per cent). The only regions to record declines were Cariboo, with 3.3 per cent fewer self-employed and Vancouver Island/Coast which saw a slight decrease of 0.1 per cent over the five year period.

The two regions where high technology is most highly concentrated in the province saw an expansion in the number of small businesses between 2000 and 2005, with the number of high tech establishments jumping 2.6 per cent in Vancouver Island/Coast and 1.6 per cent in Mainland/Southwest. The Northeast region also recorded a significant increase in high tech establishments (+ 5.9 per cent) while the count was also up in Kootenay (+ 0.6 per cent). The Cariboo region suffered the largest drop, losing 4.7 per cent of its high tech small business establishments in the five-year period.

Secondary manufacturing small business establishments declined in every region of the province between 2000 and 2005. Regions in the northern half of the province, such as North Coast/Nechako (-6.6 per cent), suffered the highest rates of decline, but there were also significant losses in the southern half.

There was marginal growth in the number of tourism-related small business establishments in the Mainland/Southwest (+0.8 per cent) region, but all other parts of the province experienced a drop in the number of small businesses in tourism. The increase in the value of the Canadian dollar may be impacting small tourism businesses as American tourists are fewer in number. Visitor entries to Canada from the United States via British Columbia borders were down 4.8 per cent in 2005, the fifth consecutive annual decrease since 2001.

	Tourism		High Technology		Secondary Manufacturing	
Development Region	Avg. annual change (#)	Avg. annual rate of change	Avg. annual change (#)	Avg. annual rate of change	Avg. annual change (#)	Avg. annual rate of change
Vancouver Island/Coast	-2	-0.1%	33	2.6%	-10	-1.1%
Mainland/ Southwest	69	0.8%	81	1.6%	-77	-1.7%
Thompson-Okanagan	-28	-1.4%	0	-0.1%	-9	-1.1%
Kootenay	-11	-1.3%	1	0.6%	-6	-2.7%
Cariboo	-19	-2.8%	-10	-4.7%	-7	-3.5%
North Coast/ Nechako	-8	-1.6%	-1	-0.9%	-8	-6.6%
Northeast	2	0.8%	7	5.9%	-3	-4.1%

Small Business Exporter is a business with fewer than 50 employees that exports goods out of the country, regardless of the value of exports. Small firms can be large exporters and, conversely, some large firms are small exporters.

An export can be a good shipped either to another country, or sometimes to another region within a country, such as another province. Data on service exports and interprovincial trade are scarce and such data tabulated by business size are simply not available; consequently, this report considers only international exports, so that an exporter is defined as a business that ships merchandise to international destinations.

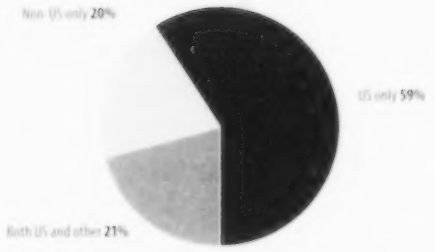
Note that export data for businesses by employee size are available for 2004 only and data for British Columbia on its own are not readily available. In order to meet confidentiality requirements, Statistics Canada has grouped the Territories (Yukon, Northwest Territories and Nunavut) into a region with British Columbia. Therefore, the data reported here include exporters in the Territories. However, based on years where data for the Territories was not suppressed, the inclusion of exporters from the Territories should not significantly influence the numbers. Most of the exports from the Territories are diamonds from the Northwest Territories and these are generally large business exports. The numbers for small businesses in British Columbia are probably inflated by less than half of a per cent. The value of exports for large businesses may be slightly more overstated due to the inclusion of diamonds shipped from the Northwest Territories, but should not exceed two to three per cent of the total.

	Number of Establishments	Number of Employees	Value of Exports ($millions)
Small business exporters	**5,376**	**71,123**	**$11,546.7**
Large business exporters	1,263	298,114	$22,450.2
Total all exporters	**6,639**	**369,237**	**$33,996.8**

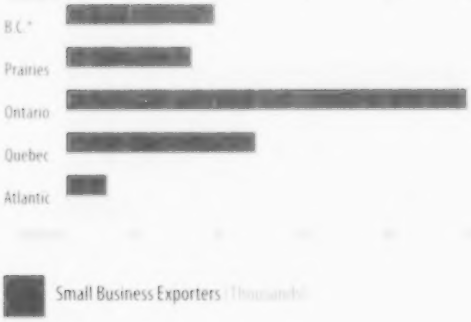
In 2004, there were 6,639 businesses in British Columbia that exported goods to international destinations. Of these, 5,376, or 81 per cent were small businesses, which is about 1.5 per cent of all small businesses in the province. In other words, 98.5 per cent of small businesses in British Columbia are not exporters. Small business exporters employed over 71,000 people in 2004, which amounted to approximately 7 per cent of total small business employment.

Despite the fact that only a small fraction of small businesses are exporters, the total value of exports shipped by these small businesses amounted to $11.5 billion, just over one-third of total exports.

Some reasons why there are so few small businesses that export include the fact that there are high start-up costs associated with an exporting business and also that, in order to compete internationally, businesses need to achieve economies of scale that may not be attainable for most businesses with fewer than 50 employees.



In 2004, approximately 59 per cent of British Columbian small business exporters shipped exclusively to the United States and another 21 per cent exported to the United States and at least one other country. Small businesses that shipped only to destinations other than the United States accounted for only 20 per cent of British Columbia's small business exporters. The high cost of transportation is one reason for the lack of destination diversification, since small businesses are less likely to be able to afford these costs. Those businesses that did export to other destinations tended to ship greater volumes, which probably helped curtail some of these costs.



For the fourth consecutive year, there were more small business exporters in British Columbia than in all the Prairie provinces combined in 2004. Part of the reason for this is that many small farms in the Prairies have their exports handled by large co-operatives such as the Canadian Wheat Board.

There is noteworthy regional variation within Canada in terms of export intensity. Small businesses in some regions export far more by value, on average, than do those in other regions. For example, although there were fewer small business exporters in the Prairies in 2004 than in the top three provinces, the value of shipments by those businesses was far in excess of any other region in the country. In fact, the value of small business exports from the Prairies was more than double those from Ontario, which was already more than double the amount shipped by small business exporters in British Columbia. It is possible that Alberta oil and gas producers hire small firms in the finance and insurance sector to deal with exporting their product, which helps explain the relatively higher export intensity in the Prairies. Average exports by small business exporters in the Prairies reached over $10.4 million per firm in 2004, well above the average value of exports from businesses in central Canada and British Columbia. Exporters in British Columbia, averaged shipments of $2.1 million, while in Atlantic Canada, small businesses exported an average of $5.3 million per firm. Despite their high volume of small business exporters, Quebec and Ontario had the lowest average export value per firm in 2004 ($2.0 million and $1.5 million, respectively). The regional differences in terms of the number of small business exporters and export intensity are likely driven by the provincial variation in industry composition.

One area where small businesses may be able to compete with larger firms on a global scale is in niche markets. Small businesses are better suited to produce specialized items for these smaller markets, but the problem is getting the word out to customers around the world. The continuing development of e-commerce may be an invaluable tool for small businesses seeking to expand their market globally. Canadian businesses are increasingly making use of new information technologies. Based on data from the Canadian Federation of Independent Business (CFIB), among small businesses there has been an upward trend in Internet usage in all regions of the country. In British Columbia, the percentage of small businesses using the Internet has increased from 74 per cent in 2000 to 88 per cent in 2005.

Just a year earlier, British Columbia trailed four provinces in terms of Internet use by small and medium-sized enterprises (SMEs), but by 2005 the province was on par with Ontario (87.6 per cent) and Alberta (87.9 per cent) as the top ranked in the country, well above the national average of 84.2 per cent. Quebec lags well behind, ranking last in the country with 77.5 per cent of SMEs using the Internet.

The growth in the Internet as well as other communications technologies has helped make the world a smaller place, at least in a business sense. Small businesses are getting more involved in exporting than ever before. This includes the export of services, which are expanding quickly as Canadian companies compete globally to provide services such as computer programming and call centres. The small business sector is already an important part of the British Columbia economy and new technology could help it grow and become even more vital in the future.

There are greater differences when it comes to more intensive Internet usage by business. British Columbia leads the provinces in terms of maintaining a business website and selling on-line. According to CFIB, in 2005, 48 per cent of British Columbia's small businesses reported advertising on their own website, the highest among provinces and almost ten percentage points above the Canadian average (39 per cent). In the same year, 23 per cent of British Columbia's small businesses were selling their goods or services on-line, a notably higher share than in other regions.

All statistics presented in this document are based on the best data currently available. A comprehensive listing of all businesses operating in British Columbia or elsewhere does not exist; therefore, business counts must be estimated to some extent. BC STATS has combined data from several sources to produce estimates of the total number of large and small businesses operating in British Columbia and other provinces, as well as the employment and payrolls generated by these businesses.

The results may differ from estimates produced in other studies using different data and different methodologies. Differences will potentially be more in terms of absolute numbers, rather than direction of trends or the relative standing of British Columbia compared to other provinces. This edition of the *Small Business Profile* incorporates statistical revisions, such that year-over-year comparisons should not be made using last year's edition. This is particularly true for data describing the high tech sector since the definition of high tech has been revised, resulting in a significant increase in counts of establishments and employment.

Estimates of the number of businesses have been produced using data from Statistics Canada's *Business Register* and *Labour Force Survey*. Estimates of employment and payrolls have been produced using Statistics Canada's *Survey of Employment, Payrolls and Hours* and *Labour Force Survey*. All self-employment numbers have been obtained directly from the *Labour Force Survey*. Data describing small business exporters is derived from Statistics Canada's Exporter Registry. Data on the percentage of small businesses using the Internet is from the Canadian Federation of Independent Business' *Members' Opinions Surveys*.

Acknowledgements

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